

BROADBAND SOLUTIONS FOR REGIONAL & REMOTE AREAS

Comments by: The Small Enterprise Telecommunications Centre Limited (SETEL)

The primary role of SETEL is to advance the interests of small, micro and home businesses as users/consumers of telecommunications services. Its objectives are to:

- Advance and represent the interests of Small, Micro & Home Businesses in telecommunications to: governments; the Federal Public Service (in particular DBDCE); the ACMA and the ACCC; the telecommunications industry and to other government-related areas impacting on the Small Business sector.
- Actively participate in Communications Alliance code development programs and other CA activities, which have a bearing on Small Business.
- Raise awareness of telecommunications issues in the Small Business sector.
- Promote developments in telecommunications to the Small Business sector to increase the level of understanding of telecommunications issues and policy development and to foster greater input into policy debates on such matters.
- Provide briefing on telecommunications to the Small Business sector, mainly through industry and member associations.
- Seek to raise the level of participation by the Small Business sector in telecommunications industry fora.
- Provide a forum and co-coordinating role for Small Business in relation to the widespread adoption of electronic commerce.
- Continue liaison with consumer and user group bodies and representatives in the telecommunications sector and other industry associations involved in the telecommunications industry.
- Recognise and promote the needs of different size related categories of small business - home and non-employed businesses, micro businesses (5 or less staff), larger small businesses (including rural businesses) and medium size businesses which make up the SME sector.

The main source of revenue (93%) is by Commonwealth Government Grant: “The Small Enterprise Telecommunications Centre Limited (SETEL) is supported by the Commonwealth through the *Telecommunications Consumer Representation Grant* Program of the Department of Broadband, Communications & the Digital Economy”.

SETEL is the main source of representation of small, micro and home business interests in telecommunications and e-commerce.

SETEL was established in 1992 as a not-for-profit company limited by guarantee, and is governed by a Board of directors, appointed annually at the AGM. Further details are available on the website: www.setel.com.au.

The Small Business Coalition membership, broadly covering State and regional business organisations, forms the core membership base for SETEL at present. Micro and home businesses are represented by the Micro & Home Business Association (MHBA).

Comments

- **Competition in the Telecoms Market**

SETEL initially welcomed the awarding of the OPEL contract as a means of achieving a speeded-up process of supplying much needed faster data services to non-metropolitan areas as it matched the competition model well. However the proposals seemed to be in conflict with plans for a FTTN network, initially promising desired competitive services but being in danger of redundancy if access to a FTTN network was not guaranteed.

The cancellation represents a lost short-term opportunity to obtain better services in regional areas and a promised remedy to regional backhaul issues. A new model is still needed to render competition sustainable in regional areas otherwise reliance must return to a virtual monopoly (with cross-subsidisation capabilities) or a much smaller number of real full-service national or regional telcos contesting market share in low density and low profitability areas.

SETEL is vitally interested in the outcomes of the deliberations of the National Broadband Network tender as many small, micro and home businesses (particularly those outside inner metropolitan network coverage) have been tempted by, but regularly denied, promises of high speed broadband.

SETEL policies seek an ICT scenario in which Small Businesses can take advantage of developing communications technologies to improve their business operations, expand into global markets and maintain a competitive balance with big business.

We are mindful of the claims or plans for data speeds of 12+Mbps and consider the initial aim for such a quantum to be more than adequate for the current needs of the majority (apart from specialised ICT services) of small, micro and home businesses, particularly if it can be achieved via base-level generic network supply or by a range of affordable access technologies in RRR areas. However a demand-side process will not be sufficient to drive the provision of adequate broadband services.

- **Small Business & State of e-Readiness**

SETEL contends that a significant proportion of the S (Small) segment of the SME market has less than satisfactory skills, knowledge and awareness of ICT, how it can fully benefit their business operations, how to implement products/services successfully (without specialist external assistance) and how to remedy faults.

Recent studies have revealed that most Small businesses are not getting value from ICT because their scale & level of operation is insufficient to take advantage of all or most of the components built into modern IT systems, software or hardware, including mobile handsets. Access to support services in RRR areas can be expensive, if available.

SETEL's research indicated that a significant proportion of SME solutions are targeted at businesses comprising 50 or even 100+ employees. These scaled-down big business solutions are still too complex for most small, micro and home businesses and are even less likely to be relevant to small businesses in RRR areas.

Added to this is the situation of most Small businesses being time-poor and the problems associated with the typical off-the-shelf/DIY ICT solution become paramount. Demographics of age, location, training and lack of ICT skills need to be factored in. These factors tend to magnified in relation to regional & rural small businesses where even the supply of products may be compromised, in terms of price, range and availability.

Small businesses need ICT solutions that are affordable and effective in adding value to the business without requiring the attainment of an additional layer of expertise simply to render systems functional. Network systems, delivery technologies and technical jargon simply add to the complexity of upgrade decisions and can delay implementation.

SETEL recently raised with the Minister for Small Business, at the National Small Business Forum in Sydney on 10 June, the concept of an ICT Mentoring Scheme for small, micro & home businesses involving qualified IT professionals being resourced to guide small businesses through the process of implementing a complete suite of communications, computing software & hardware, security and business systems services for more efficient operation of their businesses.

If a ubiquitous high-speed broadband network with affordable and accessible services is available to the majority of small, micro and home businesses the problem will still remain of integrating those services into the business environment. However one less element in the IT skills deficit in small businesses will have been resolved provided competition offers suitable services that are easy to implement.

- The National Broadband Network

SETEL notes with dismay the slowness in the provision of widespread, affordable access to reasonable broadband data speeds in this country. The promises of real & effective ongoing competition following the introduction of the Telecommunications Act (1997) have not been adequately met, apart from the mobile telephony sector (albeit at considerable high cost to users) and basic ISP services. Too little focus has been placed on factors other than price-based competition; however SETEL recognises that policy failure, regulatory gaming and risk/uncertainty associated with investment have affected the capacity of network and service providers to record reasonable levels of profitability commensurate with increasing retail market share.

SETEL's policies recognise the merits of non-carrier ownership of network infrastructure so as to avoid supply bottlenecks and access discrimination. We see them as relevant in this submission to highlight the need for an alternative to an exclusively carrier-owned

network virtually dominating communications supply throughout the non-metropolitan areas of the nation.

SETEL Policy extract: *“If a single carrier is not able to deliver the necessary level of broadband services throughout Australia provision must be made for telecommunications consortia or community co-operatives to provide the mandated services, particularly in areas where a single ‘notional’ carrier would apply an argument of lack of commercial viability as a reason for non-supply.”*

SETEL notes that the carriers are reluctant to upgrade facilities in low density (specifically RRR) areas due to economic viability reasons. This impacts on decisions about matters such as undersupply or lack of competitive access in relation to adequate broadband services.

- Urgent Removal of Existing Network Impediments

SETEL contends that there is an urgent need to remove existing network impediments (RIMS & Pair Gains) that inhibit the supply of even basic ADSL services in a number of metropolitan and outer metropolitan areas of Australia. This should be the 1st priority, or even a condition of providing a subsidy/financial contribution package, of any FTTN network program or equivalent subsidy program.

Residential and Small business users in “affected” underserved areas need to be offered equivalent basic broadband services to those in metropolitan areas. This would remove frustration & complexity about service offerings; it would enhance short-term competition (very relevant if any FTTN or upgraded network developments were to take up to five years to implement) and, provided such upgraded networks had the capacity for scalability, would encourage increased usage of data services.

SETEL has long maintained that the lack of effective reasonable data speeds available to Small Businesses has inhibited the uptake of software solutions and this in turn has inhibited the development of ICT applications for the small business sector.

- Interim Measures

High-speed broadband users often migrate through ADSL & equivalent services before accessing fibre or cable services. Given the five year timeframe for the completion of the NBN rollout there is a definite need for the vast majority of existing exchanges in Australia to be upgraded to ADSL, and progressively to ADSL2, without delay to enable users to experience faster data speeds and the additional range of services associated with those faster services.

Small, micro and home businesses do not have, as yet, a substantial range of applications available that contribute to the value proposition of the business. Faster broadband should encourage the development and marketing of an extensive range of innovative

services and applications for business purposes. Information and entertainment services do not rate high in the value stakes for business users.

SETEL notes that a significant number of regional and rural small businesses (as well as home businesses in those areas) are located outside the coverage of wired broadband services (such as ADSL), the former often on approach roads into regional and rural centres. Too little focus seems to have been placed on “interim” wireless services as a means to obtaining reasonable broadband speeds.

- **Selecting Technologies**

Governments have been reluctant to specify technologies for which subsidies will be provided. However it is apparent that Fibre technologies will not be commercially cost-effective for many areas of Australia, generally those outside the footprint of larger population centres, so alternative non-fibre technologies should be identified and supported to provide equivalent (or near equivalent) services in those areas.

SETEL is concerned that one carrier’s initial proposal seemed to be limited to providing Fibre-based services to approximately 60% of the population, thus leaving ‘someone else’ to find a solution for the remainder. There have been indications that this “60% solution” may proceed regardless of Federal Government support.

The National Broadband Network must be national but not necessarily a single solution or a single network. Network developments should address the demographics of users in all areas of Australia in order to provide a defined minimum set of services (a virtual broadband USO) with scalability options made available for additional services.

SETEL fears the loss of the concept of competitive supply, contributing to the long-term interests of end users, if one major market participant is permitted to exercise dominance over the network or substantial parts of it. SETEL has noted slowness in roll-out of new technologies in circumstances where little or no competition prevails. However the important element of cross-subsidisation has been an essential factor in the provision of access and services to certain sectors of the user community. Federal subsidies or contributions should be offered with caveats to ensure that recipients of such services can continue access at affordable rates.

- **Long-term Interests of End-users (LTIE) – a Test for Competition**

SETEL contends that the LTIE test is not delivering the desired outcomes. From the perspective of the small, micro and home business user of telecommunications services most, if not all, of the current competition in fixed networks services is price based. Most of the investment in infrastructure or equipment by competitors or access seekers relies to a significant degree on the Telstra network. Competitors are seemingly unable to earn adequate profits to invest in new equipment/infrastructure and thus contribute to the aims of the LTIE test. Many competitors/access seekers seem unable to develop a sustainable market presence to be able to continue to innovate or add value to resale services.

The risks in extensive reliance by access seekers on wholesale connection to Telstra's network remain excessively high. A change of competitive stance, similar to that currently being seen or 'threatened' in the marketplace, can add significantly to that risk.

End users are benefiting from price based competition or selected reductions in wholesale pricing by the major network operator, which then flow on to the end user through the pricing offered to them by access seekers. Margins are thin and very vulnerable, thus the gains to end-users are mainly short-term as few competitors derive sufficient profit to plough funds back into investment.

Small business users, in the main, are rapidly adopting contestable domestic-grade low broadband services as a result of price-based competition. In the interim this is fine but there is little incentive to move to business-grade services with additional features and applications more relevant to business operations. The high risks associated with investment in this market segment by competitors is denying end users the opportunity to experience new and emerging services resultant from a dynamic market environment in which competitors are striving to differentiate services according to value or scope rather than simply by price. Vanilla should not be the prescribed 'flavour' for the market.

SETEL questions whether it is merely sufficient to continue to rely on the short-term benefits of price-based competition. SETEL considers that significant opportunities and momentum are being lost by not concentrating on the elements of "contribution to investment" and the impact of risk in today's telecommunications environment.

SETEL is not convinced that measures implemented towards the end of the term of the previous Government will have the expected immediacy of impact in the telecommunications market by encouraging competitive supply of currently available or merging services. The fragmented structure of the market is a key impediment. Too much tension seems to exist between suppliers of services and the result of infighting in the media is diminishing user confidence in alternative technologies that could adequately meet their immediate needs for faster data services.

SETEL contends that the bulk of the benefits of competition in the telco industry have affected big and medium businesses and, to an extent, those small businesses located in areas heavily populated by big and medium businesses (mainly CBDs). The majority of small, micro and home businesses are located in areas outside CBDs. We note that the proposed FTTN roll-out is deemed not to be economical in areas with less than 100,000 population so alternative methods of supply will be needed to provide the 'smaller' centres with adequate or equivalent data speeds.

- LTIE from a Small Business perspective.

Telcos will roll-out infrastructure to markets of sufficient size and compactedness to provide a commercial return. Hence we find the majority of the 160+ holders of carrier licences operating in heavily populated areas leaving a small minority to service the more

sparsely populated areas. A tendency for over-reliance on resale can provide an element of competitive supply but poor margins and input cost uncertainty do little to guarantee quality support services to residential and small business consumers.

Unfortunately product differentiation is the new innovation in many parts of the telecommunications market in which lack of comparability exacerbates the problem.

An immediate interest of a small business user is access to affordable data speeds commensurate with their current & short term needs. Extending the time horizon, these interests include scalability or replacement of those services to encompass a growing number of applications added to enhance the effectiveness of the operations of that business. Under the current scenario upgrades or replacements can be generally very disruptive to a business and often do not deliver full value.

An LTIE test for a small business would be whether the technology delivered gains in terms of improved operations, greater efficiency, business growth, increased profitability and improved lifestyle for the proprietors. For most it is not feasible to seek to attribute all or most of those gains directly to the new or improved technologies since better broadband can also deliver informational and educational opportunities.

We need progressive steps to get us to that desired end-point and perhaps continued reliance on a competitive market model will not be appropriate. As indicated earlier, competition in the telco market in Australia is not delivering technological advancements in a speedy manner and at a price acceptable to the majority of consumers. Specific subsidy programs, targeted at non-metro areas, have been successful in broadening the availability of desired data services but their continued existence has been affected by deliberations over the NBN.

Small, micro and home businesses would welcome a mature communications market in which adoption of new services and technologies was rendered quick, simple and affordable (the latter in terms of adding value to the business operations). The next step should be to foster strong competition from a considerably reduced number of suppliers intent upon product/service improvement rather than reliance on price-based competition.

- Options for Consideration

SETEL notes increasing industry 'acceptance' that a natural monopoly is probably the best solution for Australia's broadband woes. This view will perhaps assist in the awarding of the NBN contract to an established carrier since on the basis that it is better placed to roll-out services more quickly to a significant proportion of the population. SETEL considers that a contract should be on a wholesale supply basis so as to maximise opportunities for competitive and innovative supply of services over the longer term.

SETEL policies seek an ICT scenario in which Small businesses can take advantage of developing communications technologies to improve their business operations, expand into global markets and maintain a competitive balance with big business.

***SETEL's policies state:** All Australian small & home business telecommunications users should have access to competitively priced, innovative, quality services equivalent to, as far as possible, world's best practice.*

SETEL was very pleased with the outcomes of the recent Online Ministers' Council, in particular those recognising the role of the 3 tiers of government in supporting ubiquitous broadband service availability throughout Australia.

Extract from SETEL policy - Funding the USO: *SETEL believes that the Universal Service Obligation (USO) should be funded by the three tiers of Government to conform to social policy and regional development initiatives. (Alternatively USO contributions should be directed to an industry infrastructure fund to enhance provision of competitive infrastructure & services in all areas.)*

- Relevant extracts from Online Ministers' Council Communiqué.

“Framework for collaborative development and use of broadband in Australia

Members agreed to develop a Framework for the collaborative development and use of broadband in Australia. For the first time, all governments in Australia have agreed to cooperate to develop a national broadband Framework to guide future programs and activities.

Members noted that it is timely that Australia adopts a clearly defined national Framework for broadband development and use, given the future roll-out of the National Broadband Network, and the investment by all levels of government in telecommunications initiatives.

Broadband is a key enabler for the digital economy. It is critical to the delivery of private and public sector services and applications in education, health, community and other key services. It also generates productivity and other economic efficiency gains across the economy as well as environmental benefits.

Members noted that there are significant potential benefits by working collaboratively to ensure there are synergies and linkages in the activities undertaken by jurisdictions to develop broadband infrastructure and applications.

Members noted that the National Broadband Network provides a unique opportunity to establish high-speed broadband infrastructure, as well as the platform for the future development and use of broadband in Australia.

The state and territory Ministers resolved to work together to examine options to leverage their future telecommunications procurements to ensure an appropriate competitive structure and to deliver enhanced value for money and expanded and better quality of services.

The state and territory Ministers expressed their strong preference for a solution to be operated by a genuine wholesale provider that is separate from any retail service provider.

National Broadband Network—strategies for effective use and development

Members agreed that a cooperative approach between all tiers of government is vital to the effective use and evolution of the National Broadband Network, once a successful tenderer is chosen. Members noted that the National Broadband Network has the potential to be a key enabler for all jurisdictions to transform and enhance access to government services and information, realise productivity benefits, and foster the development and use of new and innovative services and applications. Members agreed on the importance of open access to backhaul and last mile infrastructure.

Members agreed to develop a cooperative and collaborative approach identifying priority areas for further work, as well as addressing impediments to the possible effective use and evolution of the National Broadband Network. In particular, members noted this could include action by individual governments to:

- augment the National Broadband Network by further developing the capability of the infrastructure or extending it through complementary network infrastructure
- provide digital content in priority areas, such as health and education, emergency services, cultural institutions and general government service delivery which can be delivered by the National Broadband Network
- transform the nature and delivery of key government applications and services in, for example, local government, education and health
- use the National Broadband Network to deliver certain Australian, state, territory and local government services to Indigenous Australians
- help streamline planning process for broadband deployment into greenfield sites and other developments.

Members agreed to work with other relevant Council of Australian Government Ministerial Councils in education, health and regional development as well as the key sectors on this issue.”

Extract from SETEL Policies: Regional or Community Influence is Important.

2.3 SETEL supports the introduction of a program to incent regional communities to secure control over infrastructure facilities to foster competitive supply of services.

In the complex communications market there are several scenarios for competitive supply ranging from simple resale of another’s services to full competition. In Australia it is rare for Telstra to be out of any market for long if a new technology shows promise or poses a threat to existing markets. Many of the new entrants have promised or promoted their intention to service the SME sector but few have been successful. The benefits of

competition have mostly been experienced by big business and government users. Too often small and home businesses are faced with little or no choice of provider and no access to newer technologies.

Formerly competitors blamed lack of access, at reasonable prices, to 'last mile' infrastructure – that connecting the end user to the exchange. Following some breakthroughs in that area the competitors are complaining about backhaul costs – prices of accessing the major networks between exchanges and being able to channel significant amounts of data across that infrastructure.

The SETEL policies address both situations with the aim of providing sufficient ducting and cabling infrastructure to allow competitors to compete on services. Consideration must be taken of the infrastructure already in place and this includes that of other carriers as well as Telstra.

Summary

It is clear that normal commercial practice cannot be relied upon alone to provide adequate, affordable broadband services, in many areas of RRR Australia. Anchor tenants (such as State and local Governments) can play a role in leveraging access to high-grade services to the general community.

A carrier-borne USO responsibility relies upon extensive cross subsidisation across a range of services, many of which may be subject to declaration or regulatory intervention in non-RRR areas. Even a near-national fibre-based service will require massive Government subsidy or financial support to become a reality.

Factors such as unmet demand, lack of ICT skills, complexity of supply side product and service offerings and lack of competition affect the supply/demand equation. The attitude of "it would be nice to have if we could get it or afford it" needs to be replaced with a top down approach to providing affordable broadband services underpinned by extensive (regional) community involvement to raise awareness, to stimulate demand, to negotiate sharing of access facilities (particularly backhaul) and to promote opportunities.

All participants win under this scenario as access is substantially increased, economies of scale are achieved, Governments can gain far greater utilisation of on-line services and communities can be revitalised through access to a broader range of services.

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SETEL 30 June 2008.